



# FINAL REPORT

## School Finance Formula Review Committee

December 2014

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### MEMBERS:

Senator Herman C. Quirmbach, Co-chairperson  
Senator Tod Bowman  
Senator David Johnson  
Senator Brian Schoenjahn  
Senator Amy Sinclair

Representative Ron Jorgensen, Co-chairperson  
Representative Cecil Dolecheck  
Representative Greg Forristall  
Representative Patti Ruff  
Representative Cindy Winckler

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Legislative Services Agency

### AUTHORIZATION AND APPOINTMENT

The Legislative Council created the School Formula Finance Review Committee for the 2014 Legislative Interim pursuant to statutory law which requires a review of the school finance formula every five years. The charge of the committee was as follows:

Prepare a school finance formula status report and provide recommendations in accordance with the requirements of Iowa Code section 257.1(4), including receiving assistance from the Department of Education, Department of Management, and Department of Revenue; providing recommendations for school finance formula changes or revisions based upon demographic changes, enrollment trends, and property tax valuation fluctuations observed during the preceding five-year interval; providing an analysis of the operation of the school finance formula during the preceding five-year interval; and incorporating a summary of issues that have arisen since the previous review and potential approaches for their resolution.

The Legislative Council authorized the committee for one meeting, which was held on December 15, 2014.



## **School Finance Formula Review Committee**

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### **I. December 15, 2014, Meeting**

Members of the committee elected, by voice vote, temporary Co-chairpersons Jorgensen and Quirmbach as permanent co-chairpersons. Members of the committee adopted, by voice vote, the proposed rules for the committee that had been previously distributed. Co-chairperson Quirmbach and Co-chairperson Jorgensen each provided opening remarks.

### **A. School Finance Formula Review Committee Background**

Michael Duster, Legal Services Division, Legislative Services Agency, provided a brief background on the School Finance Formula Review Committee including a description of the legislation that established the legislative review at least every five years and the required contents of the committee's report to the General Assembly. Mr. Duster also summarized the presentations heard by previous School Finance Formula Review Committees during the 2004 and 2009 Legislative Interims and provided a list of the recommendations approved by each of those interim committees.

### **B. School Finance Formula Overview**

Ms. Lisa Oakley, Department of Management (DM), Mr. John Parker, Fiscal Services Division, Legislative Services Agency, and Dr. Jeff Berger, Department of Education, provided a comprehensive overview of the basic operation of Iowa's current school finance formula, discussed changes to the formula over the previous five years, analyzed various per pupil funding amounts, provided comparison data from other states, discussed inequities in the formula and the current sources of school district funding, and discussed categorical supplement funding.

Ms. Oakley provided the committee with statewide school district funding data including information on statewide budget enrollment and the amounts of funding received through state foundation aid, foundation property tax, and income surtax. She described the statutory goals of Iowa's school finance formula and detailed the components used to determine each school district's spending authority, including enrollment count, district cost per pupil, supplemental state aid, and the various forms of supplemental weighting. Ms. Oakley also described the budget adjustment provisions, which allow certain school districts with declining enrollments to receive one-year adjustments to their spending authority, the ability of school districts to carry forward unused spending authority, and the authority of the School Budget Review Committee to make certain adjustments to spending authority for purposes of dropout prevention and on-time funding.

Ms. Oakley further described the state categorical supplements provided to school districts and the state categorical supplements for area education agency funding. The committee also received information on the instructional support program authorized in Code section 257.18. Currently, under that discretionary program, 328 school districts collect approximately \$211.5 million from a combination of property tax and income surtax. Ms. Oakley discussed the recent elimination of state funding for the instructional support program and the statutory limit on state funding for that program that has been in place since FY 1993.



Ms. Oakley additionally described the funding formula for the statewide voluntary preschool program for four-year-old children. All funding for the program currently comes from state aid. For FY 2015, there are 310 school districts participating with 21,926 students enrolled in those preschool programs. Statewide funding for those programs totals approximately \$70 million.

Dr. Berger outlined the consequences for school districts that exceed their authorized budget or that have a negative unspent balance for two or more consecutive years, including implementation of specified corrective actions. Dr. Berger noted Department of Education's recent implementation of a tracking system to better monitor and warn those school districts that are in danger of encountering a negative unspent balance.

Ms. Oakley discussed the revenues received by school districts from the utility replacement excise tax and state commercial and industrial property tax replacement payments. She noted the adjustments made in the formula to account for those sources of revenue. Ms. Oakley also described four sources of property tax relief provided to school districts: (1) property tax adjustment aid, (2) property tax replacement payments, (3) adjusted additional property tax levy aid, and (4) foundation level increase for excess moneys in the Property Tax Equity and Relief Fund.

Ms. Oakley provided a general description of some additional funding sources for schools, including the cash reserve levy, income surtaxes, management levy, physical plant and equipment levy, public education and recreation levy, and debt service levy. In addition, Ms. Oakley identified several of the legislative changes to the school finance formula, including exclusion of the instructional support levy from tax increment financing, a reduction in the cash reserve levy limit from 25 percent to 20 percent, modifications to dropout prevention funding, property tax replacement payments, terminology changes relating to the state percent of growth, English language learner supplementary weighting changes, supplementary weighting for certain shared operational functions, teacher leadership program funding, and modification of the school infrastructure sales tax allocation to the Property Tax Equity and Relief Fund.

Mr. Parker provided historical data on the state percent of growth and the state cost per pupil for fiscal years 1994 through 2015. Mr. Parker also identified the legislation in each fiscal year since 2000 that established the state percent of growth and whether that legislation met the statutory requirements contained in Code section 257.8.

Mr. Parker provided the committee with information on the regular program state cost per pupil for FY 2015 as well as the amounts of the categorical costs per pupil for school districts and area education agencies. Mr. Parker discussed the differences in the district cost per pupil among school districts and the reasons for those differences. Mr. Parker noted that those differences have existed since the district cost per pupil amounts were originally established, and that they would continue under the current formula because of the method used to calculate supplemental state aid. For FY 2015, there is a range of \$175 between the lowest and highest district cost per pupil. Mr. Parker provided multiple data sets and maps showing Iowa's expenditures per pupil, the national average for expenditures per pupil, and Iowa's national rank for expenditures per pupil.



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According to the National Center for Education Statistics, Iowa ranked 28th nationally for FY 2011. According to National Education Association Statistics, Iowa ranked 35th nationally for FY 2014.

Dr. Berger addressed issues relating to equity in the school finance formula. He noted that Iowa's formula is widely considered to be a very stable and equitable formula, but noted that complexities in the formula have caused unintended consequences. Dr. Berger identified different district costs per pupil, certain categorical supplements, transportation costs, certain discretionary property tax levies, supplementary weightings, and the budget guarantee as sources of inequity within Iowa's education funding system.

Dr. Berger also identified Iowa's use of multiple funding sources to fund education as being critical to the formula's overall stability and equity, but he deferred to policymakers to determine the correct balance of those sources. He described the advantages of Dillon's Rule to legislators. Dr. Berger concluded his presentation with an analysis of the current use limitations for categorical funding and questioned the advantages and disadvantages for removing some of those limitations.

### **C. Task Force Report: Fairness and Equity in Iowa's Schools**

Ms. Patti Schroeder, Finance Director, Iowa Association of School Boards, presented the committee with a November 2013 report prepared by a task force consisting of various stakeholders and state agency representatives. The task force sought to define how equity and inequity are measured and to identify areas within the school funding formula that are inequitable between school districts. Objectives of the task force's report were to identify elements of the funding formula for greater simplification and transparency, highlight areas of inequity, and to provide a comprehensive analysis of options to address current funding disparities. Ms. Schroeder noted that the task force decided that its first report would not make specific policy recommendations, nor would it discuss the adequacy of funding.

Ms. Schroeder identified three overarching findings contained in the task force's report: (1) the regular program foundation formula is relatively equitable, (2) other programs that have been merged into the formula have added inequity concerns between districts, and (3) equity concerns between school districts range from 2.9 percent to 221.9 percent for areas that are quantifiable. The specific programs and areas that exhibit equity concerns were identified as the district cost per pupil, the teacher salary categorical supplement, the professional development categorical supplement, the early intervention categorical supplement, the instructional support program and levy, and transportation costs.

Ms. Schroeder provided charts showing the frequency of school districts across the range of district cost per pupil amounts and district transportation cost per student. In addressing transportation costs, Ms. Schroeder also presented data on the disparity among school districts as it relates to students per square mile. The task force report contains options to address disparity in district transportation costs, including creation of a separate funding formula, appropriation of funds to the School Budget Review Committee for assistance, and authorizing the use of the physical plant and equipment levy for transportation costs. The report also contains options to address funding inequities for sparsely populated districts, including the possibility of "necessarily small



schools,” and recommendations for the creation of enrichment programming funding and supplementary weighting for low socioeconomic status students.

Following issuance of the November 2013 task force report, additional committee work was conducted by some members of the task force in the form of a “solutions committee” to advocate for changes to the formula to improve adequacy and equity of funding and to provide recommendations to the School Finance Formula Review Committee. Ms. Schroeder noted that Iowa is one of only five states to have never had its school funding approach challenged in court. The solutions committee’s core beliefs were identified as: adequate and equitable resources allocated to kindergarten through twelfth grade education regardless of location in the state, education funding must be the state’s highest priority, a commitment of a mix of property taxes and state funding, and inclusion of locally voted, enhanced funding sources. In addition, the solutions committee recommends that new categorical sources of funding be incorporated into the formula within three years, that the formula be easier to understand, and that all school districts should gain resources without removing resources from other districts.

On the issue of adequacy of school district funding, the solutions committee identified four recommendations: (1) increase Iowa’s kindergarten through twelfth grade funding to a level that surpasses the national average and restore previous area education agency funding cuts, (2) remove transportation costs from the formula and finance those costs separately, (3) create a new school finance formula without transportation costs that combines the current multiple funding streams, and (4) provide substantial, dedicated, and long-term additional resources for low socioeconomic status students.

### **D. Timing and Adequacy of Funding**

Dr. Jeff Anderson, President, Iowa Association of School Boards, addressed concerns relating to the timing of school funding decisions at the state level. Dr. Anderson identified the complexities of the school district budgeting process and noted that uncertainty of state funding decisions creates problems for school boards in negotiating collective bargaining contracts as well as determining staffing levels. Dr. Anderson described the uncertainty as disproportionately impacting newer teachers. Dr. Anderson also described the specific actions taken by the Boone School Board when it had to formulate a budget without knowing the full state funding levels. Dr. Anderson noted that increases in funding have not addressed the increasing costs incurred by school districts, including teacher compensation settlements. Dr. Anderson acknowledged the additional funding sources approved by the Legislature in recent years, including the teacher leadership supplement, but noted that the additional funding does not replace supplemental state aid.

Ms. Margaret Buckton, on behalf of the Urban Education Network, identified property tax valuation differences, differences in the district costs per pupil, and state funding for the instructional support program as sources of inequality within Iowa’s education funding system. Ms. Buckton asserted that Iowa’s current level of funding is no longer sufficient to promote achievement and noted Iowa’s national rank in teacher salaries and overall education spending per student. Ms. Buckton stressed the need to have state funding decisions, including the state percent of growth, completed



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during the statutorily required period in order to give school districts appropriate time to budget, bargain, and make staffing decisions. Ms. Buckton also presented the committee with data relating to the tax burden per capita in Iowa, expenditures per student, and performance on the National Assessment of Educational Progress (NAEP) and how that data compares nationally.

Ms. Mary Jane Cobb, Executive Director, Iowa State Education Association, acknowledged the importance of the school finance formula, but noted that funding decisions through that formula are also important. Ms. Cobb raised concerns over the instability of the state percent of growth in recent years and noted that school districts have been forced to make decisions based on guesses, which ultimately impacts students. She urged the committee to review the recommendations of the solutions committee and expressed support for a state percent of growth of 6 percent to help cover previous shortfalls in funding.

Mr. Dan Smith, School Administrators of Iowa, stated that school districts have slowly been strained with low state percent of growth rates and unpredictability. Mr. Smith discussed the larger impact of education funding on smaller communities in the state, due in part to the higher percentage of individuals in those communities who are employees of the school district. Additionally, he described the tough budgeting decisions being made by school districts in response to the ongoing uncertainty.

## II. Recommendations

The committee's recommendations to the General Assembly are summarized as follows:

**A.** In order to facilitate additional review by the committee, those individuals and stakeholders who submitted funding options or recommendations to the committee during the committee's December 15, 2014, meeting related to any of the following are requested to provide the committee with additional information and analysis, including cost estimates, prior to the beginning of the 2015 Legislative Session:

1. Funding of school district transportation costs.
2. Funding of half-day kindergarten programs.
3. Adherence to the statutory requirements for establishing the state percent of growth used for calculating supplemental state aid.
4. Increasing school district flexibility for the use of funds received through categorical funding supplements.
5. Increasing equity in funding for school districts with low property tax valuations.

**B.** Pursuant to the interim committee scheduling guidelines adopted by the Legislative Council and in order to review the information and analysis requested from individuals and stakeholders in the committee's first recommendation, the committee recommends that Co-chairpersons Quirmbach and Jorgensen submit a request to legislative leadership in the House and Senate to hold one additional committee meeting on or before Friday, January 23, 2015.



### III. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the committee's meeting and are on file with the Legislative Services Agency. The materials may be accessed from the Committee Documents link on the committee's Internet web page:

<https://www.legis.iowa.gov/committees/committee?ga=85&groupID=21383>

1. School Finance Formula Review Committee Background, Legislative Services Agency.
2. School Finance Formula Overview – Lisa Oakley, Department of Management; John Parker, Legislative Services Agency; Jeff Berger, Department of Education.
3. School Finance Formula Overview Maps, John Parker, Legislative Services Agency.
4. Fairness and Equity in Iowa's Schools Presentation, Patti Schroeder, Iowa Association of School Boards.
5. School Finance Formula Task Force Report, Patti Schroeder, Iowa Association of School Boards.
6. Task Force Solutions Committee Recommendations, Patti Schroeder, Iowa Association of School Boards.
7. Urban Education Network Comments, Margaret Buckton, Urban Education Network.
8. NAEP and Expenditure Comparison, Margaret Buckton, Urban Education Network/Iowa School Finance Information Services.